Dual Membership

Preliminary Report

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1. Issue

An initial presentation was given in August 2005, on dual membership. This report is a follow-up report to reacquaint the Board with the topic of dual membership.

2. Staff

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3. Members Impacted

As stated in the August report, based on preliminary data as of September 30, 2004, there were 14,754 active, 1,788 inactive and 413 retired LEOFF Plan 2 members. Of the 14,754 active members, 1,485 have dual membership; of the 1,788 inactive members, 505 have dual membership; and of the 413 retired members, 57 have dual membership; for a total of 2,047 LEOFF 2 members who currently have dual membership.

4. Current Situation

Under the current portability statutes (RCW 41.54), when members meet age and service requirements from one system, they are eligible to retire out of all systems; however, not all systems allow for portability. For example, LEOFF Plan 1, the Judges and Judicial systems are not included in the portability statutes. A complete list of dual member systems is listed in Appendix B.

5. Background Information and Policy Issues

History

Dual membership or portability was created with the passage of ESSB 5150 in 1987. LEOFF Plan 2 was added as a dual member system in 1993. The purpose of portability was to ensure that employees, who serve the public in multiple careers, neither had their benefit increased nor decreased due to their career path in multiple public retirement systems.

Features of Dual Membership

- Allows members to combine their service credit in all systems to qualify for benefits in each system.
- Allows members to restore withdrawn contributions from a prior system within two years of establishing membership in the current system.
- Allows members to combine service credit from all systems to qualify for a disability retirement, but only in their current system. If they qualify for a disability retirement, they can receive a service retirement from the prior system, including actuarial reductions, if applicable.
- Allows Plan 3 members to combine service credit from all systems to qualify for the inflation factor feature.
- Allows members to combine service credit from all systems to qualify for a survivor benefit. Many of the plans, including LEOFF Plan 2, require a minimum of 10 years of service credit in order for the surviving spouse or eligible minor children to be eligible for a retirement allowance.
- Allows members to substitute the base salary from any of the systems as compensation used in calculating the retirement allowance. The base salary does not include overtime, vacation leave cash-outs or other similar types of compensation enhancements. This feature can be particularly attractive if the member's service in the inactive system occurred in the past when compensation was much lower.

LEOFF Plan 2 Dual Membership Issues

1. **Base salary.** LEOFF Plan 2, PERS Plan 3, SERS Plan 3, and TRS Plan 3 all have the same provision defining what is included in salary for calculating a retirement benefit within each of the systems. Under the current dual membership statutes, a member can choose to use their "base salary" from any dual member system in which they are members to calculate their retirement benefit in that system. However, the "base salary" is not as inclusive as the normal salary within the definitions of each of the systems (Appendix A).

   The definition for base salary in the dual member statutes does not include overtime and is vague in regards to deferred salary. Because part of the original intent of the dual membership statutes was to not diminish a member's retirement benefit because of a career change, the fact that certain salary elements are excluded in the calculation of a dual member benefit, would appear to be in conflict with the original intent of the statute.

2. **Thirty-year cap.** If a member is a dual member in LEOFF Plan 2 and PERS Plan 1, they are subject to a potential cap on their benefit calculation. Under the current dual membership statutes, the combined pension benefits from both plans may not exceed the maximum allowable benefits for any one of the dual member's plans. PERS Plan 1 has a limit (cap) of 30 years for calculating the maximum benefit allowance. Even though LEOFF Plan 2 does not have a 30-year cap, the dual member's benefit could still be affected by the Plan 1 cap if their combined service exceeds 30 years.

3. **Inflation factor for twenty years of service.** LEOFF Plan 2, PERS Plan 3, SERS Plan 3, and TRS Plan 3 all have an inflation factor provision within each system. This inflation factor increases a member's benefit by twenty-five one-hundredths of a percent, compounded each month from the member's date of separation to the date retirement benefits are received. Under the current dual membership statutes, all of the systems allow members to combine service to qualify for the inflation factor, except LEOFF Plan 2.

7. Supporting Information

Appendix A – Salary RCWs
Appendix B – Examples

APPENDIX A: Salary RCWs

LEOFF Plan 2:

"Basic salary" for plan 2 members, means salaries or wages earned by a member during a payroll period for personal services, including overtime payments, and shall include wages and salaries deferred under provisions established pursuant to sections 403(b), 414(h), and 457 of the United States Internal Revenue Code, but shall exclude lump sum payments for deferred annual sick leave, unused accumulated vacation, unused accumulated annual leave, or any form of severance pay. In any year in which a member serves in the legislature the member shall have the option of having such member's basic salary be the greater of:

(i) The basic salary the member would have received had such member not served in the legislature; or

(ii) Such member's actual basic salary received for non-legislative public employment and legislative service combined. Any additional contributions to the retirement system required because basic salary under (b)(i) of this subsection is greater than basic salary under (b)(ii) of this subsection shall be paid by the member for both member and employer contributions.

PERS Plan 2 & 3:

"Compensation earnable" for plan 2 and plan 3 members, means salaries or wages earned by a member during a payroll period for personal services, including overtime payments, and shall include wages and salaries deferred under provisions established pursuant to sections 403(b), 414(h), and 457 of the United States Internal Revenue Code, but shall exclude non-money maintenance compensation and lump sum or other payments for deferred annual sick leave, unused accumulated vacation, unused accumulated annual leave, or any form of severance pay.

SERS Plan 2 & 3:

"Compensation earnable" for plan 2 and plan 3 members, means salaries or wages earned by a member during a payroll period for personal services, including overtime payments, and shall include wages and salaries deferred under provisions established pursuant to sections 403(b), 414(h), and 457 of the United States internal revenue code, but shall exclude non-money maintenance compensation and lump sum or other payments for deferred annual sick leave, unused accumulated vacation, unused accumulated annual leave, or any form of severance pay.

TRS Plan 2 & 3:

"Earnable compensation" for plan 2 and plan 3 members, means salaries or wages earned by a member during a payroll period for personal services, including overtime payments, and shall include wages and salaries deferred under provisions established pursuant to sections 403(b), 414(h), and 457 of the United States Internal Revenue Code, but shall exclude lump sum payments for deferred annual sick leave, unused accumulated vacation, unused accumulated annual leave, or any form of severance pay.

Dual Membership Definitions:

"Base salary" means salaries or wages earned by a member of a system during a payroll period for personal services and includes wages and salaries deferred under provisions of the United States internal revenue code, but shall exclude **overtime payments** [emphasis added], non-money maintenance compensation, and lump sum payments for deferred annual sick leave, unused accumulated vacation, unused accumulated annual leave, any form of severance pay, any bonus for voluntary retirement, any other form of leave, or any similar lump sum payment.

Appendix B – Examples

<u>Thirty-year Cap Example:</u>
A member retires at age 54, with a total of 35 years combined service; 22 years in PERS Plan 1 and 13 years in LEOFF Plan 2. Their LEOFF Plan 2 final average salary is $50,400 per year ($4,200/month). Their PERS Plan 1 average final salary is $54,000 per year ($4,500/month).

Step 1: **Determine benefit cap by calculating a monthly benefit in each system as if all of the service credit had been earned in one system subject to each system's rules.**

L2 = .02 x $4,200 x 35	P1 = .02 x $4,500 x 30 (can only use 30 because of cap)
L2 = $2,940.00	P1 = $2,700.00

The largest calculation amount is their benefit cap. In this example, their benefit cap is **$2,940.00.**

Step 2: Calculate their monthly benefit in each system based on each system's rules.

L2 = .02 x $4,200 x 13	P1 = .02 x $4,500 x 22
L2 = $1,092.00	P1 = $1,980.00

Step 3: Add the benefits from Step 2 and compare to benefit cap from Step 1. If the combined monthly benefits are greater than the cap, reduce the benefits proportionately in each to equal the cap.

Monthly benefit	= L2 + P1	Benefit cap	= $2,940
	= $1,092 + $1,980		= $2,940
	= $3,072		= $2,940

The monthly benefit is greater than the benefit cap therefore, both benefits would be reduced proportionately, to equal the benefit cap.

L2 = $1,092 - $49	P1 = $1,980 - $83
L2 = $1,043	P1 = $1,897

If the statute was changed to eliminate the 30-year cap be consistent with the Plan 3 Systems, the member would be entitled to the larger monthly benefit of $3,072, instead of the capped benefit of $2,940.

<u>Inflation Factor Example:</u>
A member leaves employment at age 46 with four years of service credit in PERS Plan 2 and 18 years in LEOFF Plan 2. At age 53, they retire out of both systems, but choose to defer their PERS Plan 2 benefit until age 65. Their final average salary (FAS) when they terminated at age 46 is $4,500.

Under current dual membership statutes, the FAS would not qualify for the inflation factor because they have less than 20 years of service in LEOFF Plan 2. Their monthly benefit at age 53 would be $1,620.00.

If the LEOFF 2 statute was changed to be consistent with the Plan 3 Systems, their monthly benefit at age 53 would be $1,772.36.